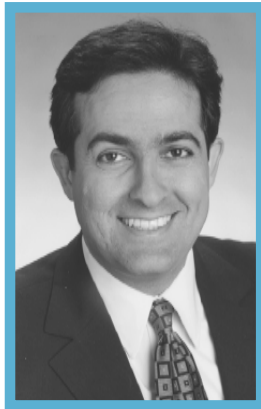


California Board of Accountancy

President's Message



Navid Sharafatian, Esq.
Immediate Past President

The year 2002 certainly proved to be an eventful one for the accountancy profession, a year in which it was thrust into the public's eye even more than ever as a country faced a crisis of confidence in its capital markets unparalleled in decades. It was clear to the profession and consumers that immediate and effective change was critical. It was equally clear that California had to take a strong leadership role in this effort. Serving as President of the California Board of Accountancy during this period of time has been challenging and at times very difficult, challenges and difficulties which I'm sure the entire Board also experienced. Yet, I am thankful of the opportunity to serve, and I am confident that our Board has served with distinction.

The reforms which have been adopted and which will go into effect in the coming year are numerous — appearing both at the state level and at the federal level. The reforms adopted in California reflect the care and concerns of consumers, regulators, legislators, and public accountancy

practitioners and firms. I urge you to read the Regulation Notice in this publication for an overview of how these reforms will be implemented during this year. And I equally urge you to register your comments and concerns as the Board works to craft these measures. It is incumbent on the CPAs and CPA firms in California to work hard in establishing and maintaining the highest standards for the profession, for as the profession serves the public successfully, the profession will be successful.

In the coming months, the Board will continue its visible and proactive role in the regulation of the profession, led capably by its newly-elected 2003 President, Wendy S. Perez, CPA. Appointed to the Board in April 2001, Ms. Perez served as Vice-President very ably during the past year, taking a major role in addressing the numerous, complicated issues and matters before the Board. Her talent, skill, and dedication have been instrumental to me in my role as President and to the entire Board in the many board, committee, and task force meetings, as well as several workshops and hearings she attended during 2002. This Board, as well as the consumers of California and the licensees of this Board, will be well served by Ms. Perez.

They also will be ably served by public member Ian Thomas who has been elected Vice President. Mr. Thomas wasted no time this past year in taking a leadership role in the Board as he chaired the Audit Standards and Practices Review Task Force, which undoubtedly did the Board's most critical work of 2002.

(Please see President's Message, continued on page 2)

Spokane

Mission Statement

The mission of the California Board of Accountancy is to protect the public welfare by ensuring that only qualified persons are licensed and that appropriate standards of competency and practice are established and enforced.

Vision Statement

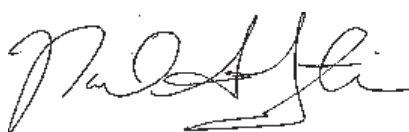
It is the vision of the California Board of Accountancy to become the premier regulatory agency that operates with maximum efficiency, fosters continuous quality improvement, and provides exemplary consumer protection while recognizing the changing consumer demographics and nature of services provided by licensed professionals.

President's Message (continued from page 1)

Joseph Tseng, CPA, will continue in his role as Secretary-Treasurer. Wendy, Ian, and Joseph will be an excellent team. I will continue to actively serve as a Board member to the best of my ability.

In ending my term, I want to convey my sincere thanks for the honor and opportunity to serve as President. I also want to thank my fellow Board members as well as the staff of the Board for all of the tremendous work and commitment evidenced in their conscientious service to California consumers, licensees, and examination candidates. Lastly, my thanks to all those who participated in our meetings and added so much value to our deliberations.

I wish all of you a very happy and prosperous New Year.



Navid Sharafatian, Esq.
Immediate Past President

In this Issue . . .

News to You	3
Engagement Letters	4
The Inactive License –	
Permitted Practices	5
License Renewal FAQs	6
Profile of the Licensing Unit	7
What's New at www.dca.ca.gov/cba	8
2003 Committee Member Appointments ...	9
CBA's RQM Program and	
AICPA's Peer Review	10
Regulation Notice	12
Disciplinary Actions	23
Future Meetings	30

Issues of Interest *to the Consumer and the Practitioner*

News to You

Peer Review Task Force

The Board has organized a Peer Review Task Force to conduct a study related to peer review in California. This study is mandated by AB 270 (Chapter 231, Statutes of 2002), and it is due to be submitted to both the Legislature and the Department of Consumer Affairs by September 1, 2003.

Board member Charles Drott, CPA, has been selected to chair the group. The task force will hold its first meeting on January 23, 2003, in Redwood City, the day before the Board's regularly scheduled meeting, also in Redwood City.

CBA Reform Statutes Implementation Task Force

The Board has organized the Reform Statutes Implementation Task Force to develop regulations to implement newly-enacted legislation. The Task Force, chaired by Board Secretary/Treasurer, Joseph Tseng, CPA, met on October 31, 2002, examining several issues such as the self-reporting of restatements and audit documentation requirements.

The recommendations of the task force, with minor revisions, were adopted by the Board at its November 15, 2002, meeting. Please see the Regulation Notice in this publication for the text of the proposed regulations.

The Latest on the Computer-Based Uniform CPA Examination

The anticipated implementation of the computer-based testing (CBT) for the Uniform CPA Examination is set for early 2004. This means that the last paper-and-pencil Uniform CPA Examination will be held in November 2003.

It is anticipated that candidates who establish conditional credit with the paper-and-pencil examination — and the conditional credit will not have

expired prior to the implementation date — will be able to retain credit during the CBT transition period. Candidates from the November 2002 examination will receive written notification of the Board's transition plan with the release of grades in February 2003.

A new Web site, www.cpa-exam.org, jointly developed by the American Institute of Certified Public Accountants and National Association of State Boards of Accountancy, is online to assist candidates and interested parties in obtaining information related to the CBT process.

As the implementation date nears, and California candidates prepare to take the examination, the latest details will be provided in **Update** as well as posted on the Board's Web site at www.dca.ca.gov/cba.

Uniform CPA Examination

The Uniform CPA Examination was held November 6 and 7, 2002, at three California sites: Pleasanton, Anaheim, and Sacramento. This was the first exam to be administered at the Anaheim location.

Traditionally, the Southern California site always hosts the largest group of sitting candidates. While 10,285 candidates were scheduled to sit at all three sites, after a 20.5% overall "no show" rate, 5,092 sat at Anaheim, 2,148 candidates were tested in Pleasanton, and 939 individuals sat in Sacramento — for a total of 8,179 candidates.

The national release date of grades from the November 2002 Examination is February 3, 2002.

The next Uniform CPA Examination will be held in California on May 7-8, 2003.

Engagement Letters

by Larry Knapp, Supervising Investigative CPA

When the Board receives a complaint related to public accounting services provided by a licensee, the customary practice is that a letter is sent to the licensee requesting a response to the complaint accompanied by any relevant supporting documentation. One typical document often requested is a copy of the engagement letter, if one was prepared. The purpose of asking for the engagement letter is to obtain an understanding of the scope of services the licensee was engaged to perform for the complainant.

Are engagement letters required? Auditing standards require an auditor to document his or her understanding of the terms of the services to be performed in the audit working papers. Use of an engagement letter to document the understanding is recommended, but not required.

Standards related to compilation engagements, however, do require an engagement letter if the licensee is engaged to submit compiled financial statements that are not expected to be used by third parties, and a compilation report is not issued. Other professional standards currently in effect, such as the Statements on Standards for Tax Services, do not require a licensee to prepare an engagement letter.

So, why should a licensee consider using an engagement letter with the client? Most licensees

would agree that regular use of engagement letters can be very beneficial. A properly written engagement letter generally will clarify:

- The type and level of services to be provided by the licensee.
- The engagement period (for example, 2001 federal and state income tax returns).
- Certain limitations in an engagement (e.g. the condition of the accounting or tax records).
- The duties and responsibilities of both the licensee and the client on the engagement.
- The fees to be charged for the licensee's services.

In addition, effective January 1, 2003, Business and Professions Code Section 5079 (a)(5) will require an accounting firm to "...disclose the actual or potential involvement of nonlicensee owners in the services provided." An engagement letter would provide the accounting firm with an opportunity to comply with this new nonlicensee owner disclosure requirement. ❖

Information

Each issue of *Update* contains important information about the public accounting profession, including notices of proposed hearings on regulation changes, Board and committee meetings, proposed new regulatory language, and topical information about enforcement, examination, licensure, and continuing education issues. For ease of reference, we suggest that after you receive and read *Update*, you place these issues in your professional library. For your convenience, all issues of *Update* since 1998 also are posted on our Web site at www.dca.ca.gov/cba.

The Inactive License — Permitted Practices

by Doug Reid, Investigative CPA

From time to time, the Board is asked about the ramifications of changing the status of a CPA or PA license to “inactive” (renewing without continuing education). The most common question is whether a licensee can continue to display the designation “CPA” after his or her name and whether professional services may be provided to clients under this circumstance.

Under current law, the holder of an inactive license in public practice may not use the CPA or PA or Inactive CPA/Inactive PA designations in association with the practice of public accountancy. For the licensed individual employed in private industry, government, or education; however, use of designations of CPA or PA, or Inactive CPA/Inactive PA, in connection with that employment is permitted.

Under the Accountancy Act (Business and Professions Code Section 5051), and except as specially permitted (Business and Professions Code Section 5053) for example, an individual is deemed to be engaged in the practice of public accountancy under any of the following circumstances:

- Holding out to the public as one skilled in the knowledge, science, and practice of accounting, and as qualified and ready to provide professional services as a public accountant for compensation.
- Maintaining an office for business as a public accountant.
- Offering or providing for compensation professional services that involve or require an audit, examination, verification, investigation, certification, presentation, or review of financial transactions and accounting records.
- Preparing or certifying reports on audits or examinations of financial information or reports to be used for publication, obtaining credit, filing with a court of law or with any governmental agency, or for any other purpose.

However, certain services under Section 5051 may be provided by inactive licensees in public practice as long as they do not use the designations “CPA” or “Inactive CPA” in signage or advertisements, on letterhead or business cards, or on financial or tax documents of clients. These services include:

- Activities associated with bookkeeping operations for clients.
- Preparation of personal financial or investment plans or providing products or services of others in association with the financial or investment services.
- Providing management consulting services to clients.
- Preparing or signing, as the tax preparer, tax returns for clients.
- Services that are permitted to be performed by persons who have never held a CPA license and who are working under the direct control and supervision of a CPA holding an active license.

To provide tax preparation services while inactive, a licensee first must register with the California Tax Education Council (CTEC) under the requirements of the California Business and Professions Code, Chapter 14, Sections 22250-22259. Under Chapter 14, the only individuals exempt from the registration requirements are those who have an active license from the California Board of Accountancy, are active members of the State Bar of California, or are Enrolled Agents.

In the absence of registration with CTEC, an inactive licensee as the tax preparer who prepares or signs, tax returns for clients will be deemed to be engaged in the practice of public accountancy and, therefore, in violation of the California Accountancy Act. ❖

License Renewal FAQs

Q: I just received a deficiency notice from the Board asking for additional information about the continuing education (CE) courses I completed. I don't understand; I completed more than 80 hours of CE, and I listed all the courses and hours on my CE Reporting Worksheet (Part C of the renewal form). Can you explain this to me?

A: Licensees may select CE from among thousands of courses that meet the requirements of Sections 88 through 89 of the Board of Accountancy Regulations. As a result, when a licensee abbreviates a course title or uses an acronym of the course title, staff is unable to determine the actual course title. Without the correct information, the CE cannot be approved. To prevent a delay in processing, licensees should list the complete and accurate titles of CE courses on the CE Reporting Worksheet. If space is a problem, licensees may attach an additional sheet of paper.

Q: My license expires in four months, but I'd like to renew it now. Can the Board mail me my license renewal form this week?

A: License renewal forms are printed automatically from the Consumer Affairs System database approximately 60 days before the license expiration date. Because of the system's programming, renewal forms cannot be printed, mailed or processed sooner than 60 days before the license expires. Sixty days allows sufficient lead-time for a licensee to receive and respond to the renewal notice.

Q: My license expires today. Can the Board process my license renewal more quickly if I mail the renewal form and fee directly to the Board office rather than the post office box printed on my renewal notice?

A: For the quickest turnaround, mail your renewal form to the post office box on the renewal form. Sending renewal forms to the Board's street address actually delays the renewal process. Renewal forms received at the Board office are forwarded to the Department of Consumer Affairs, where license renewals are cashiered for the Board.

"Inactive" licenses are updated and renewed as soon as the fee is cashiered. "Active" licenses are automatically placed on hold ("renewal in process") until staff reviews the continuing education (CE) reported on the renewal form. If the CE is qualifying, staff releases the hold and the license is renewed. The license renewal date is the date postmarked on the renewal form although it may take six to eight weeks to receive your pocket identification card.

Contributors to this Edition of **Update**

Patti Franz	Rose Lim
Mary Gale	Doug Reid, CPA
Aronna Granick	Irma Rodriguez
Holly Hansen	Theresa Siepert
Stephanie Hoffman	Liza Walker
Larry Knapp, CPA	Moises Yanez

How is a License Issued? A Profile of the Board's Licensing Unit

Receiving a CPA license is the pinnacle of many years of study and diligence by an applicant. The issuance of a license also is the product of a great deal of careful work by the dedicated staff of the Board's Licensing Unit.

Currently, six licensing technicians and three licensing analysts are responsible for processing these applications. The workload of these staff members has been increasing steadily over the past several years. Since the beginning of 2002, the number of applications received by the Board has increased by more than 40 percent from the same period in 2001.

The licensing process takes approximately three months from the date a complete application is submitted to the actual issuance of the CPA license. The work of the Board's licensing staff begins once an application is submitted. A licensing technician first must match the application for licensure with the grades received on the Uniform CPA Examination.

If several years have elapsed since the applicant passed the exam, the examination file may need to be retrieved from the archives maintained by the Board. While the majority of the processing is manually performed, the applicant's information also is maintained in a database for easy accessibility and tracking purposes.

Once the examination file is located, the licensing technician performs a preliminary review to make sure all required documents have been

submitted. If the file is incomplete, or if there is an outstanding issue, the technician will notify the applicant in writing. Applicants regularly are notified of the status of their applications approximately every thirty days. The licensing database is queried by staff on a daily basis to determine when an applicant should be notified of the status of the application. Due to security concerns and workload constraints, licensing staff are not permitted to provide application status checks by telephone.

Once the application file is complete and all required documents have been submitted, the file is reviewed by a licensing analyst who subsequently recommends approval for licensure or "deferral/rejection." The Board's licensing manager determines the final approval for licensure. If the application is deferred/rejected, the candidate is notified in writing of the reasons and provided alternate or supplemental means to achieve licensure.

In the course of a typical day, in addition to processing applications, licensing staff also responds to a high volume of e-mail and telephone inquiries as well as answers all incoming calls to the Board's general licensing telephone line.

For detailed information regarding the licensing process, please refer to the *Licensing Applicant Handbook* posted under Forms and Publications on the Board's Web site, or telephone the Board's general licensing telephone line at (916) 263-3947. ❖

Policy of Nondiscrimination on the Basis of Disability and Equal Employment Opportunity

The California Board of Accountancy does not discriminate on the basis of disability in employment or in the admission and access to its programs and activities.

An Americans with Disabilities Act (ADA) coordinator has been designated to coordinate and carry out this agency's compliance with the nondiscrimination requirements of Title II of the ADA. Information concerning the provisions of the ADA, and the rights provided thereunder, is available from:

ADA Coordinator
California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, California 95815-3832



What's New at www.dca.ca.gov/cba

This Board's online presence continues to grow in a big way. As well, the number of telephone contacts we receive on a monthly basis is surprisingly large. Back in Fall 2000, **Update** Issue No. 46 reported the Board's Web site had received 100,000 hits in one month, and we were averaging 1,700 e-mail contacts per month. Two years later, we now are averaging nearly 300,000 hits per month and just about 2,800 e-mail contacts.

Here at the Board, we track the number of contacts we receive via telephone calls, e-mail inquiries, as well as Web site visitor page hit counts because this statistical information allows us to plan and implement enhancements to Board policies and procedures, including those affecting our Web site.

The following statistics summarize the increase in monthly contacts the Board's staff handled from the year 2000 through November 2002. The years 2000 and 2001 contain 12 months of data, while 2002 reflects 11 months of statistics.

Year	Web Site Hits		E-Mail Contacts	Receptionist Phone Inquiries
2000	891,508	Web License Lookup Hits	22,745	26,887
2001	2,128,262	214,512	26,282	44,812
Jan-Nov 2002	2,778,948	316,967	28,521	39,848

In summary, the Board's Web site visitor count has increased 241 percent from 2000 to 2002, and the e-mail contacts have increased 37 percent. Additionally, the number of inquiries to the Web License Status Lookup feature has increased 61 percent from 2001 to 2002.

We continue to strive to improve our communication abilities and, as always, we encourage your comments and suggestions. Please address them to our Web page Master, Ms. Holly Hansen, at pagemaster@cba.ca.gov. ❖

2003 Committee Member Appointments

The Board is pleased to announce that the following licensees were either reappointed or newly appointed to serve on the Board's committees for 2003. Appointments were announced at the Board's regularly scheduled meeting of November 15, 2002, in San Diego, California.

Administrative Committee

Olaf Falkenhagen, CPA, Chair
 Felipe L. Quezada, CPA, Vice Chair
 Barry Franzen, CPA
 Harish Khanna, CPA
 Robert Lovret, CPA
 Daniel Matter, CPA
 Randy W. Miller, CPA
 Kathleen Platz, CPA
 Dawn E. Struck-Rau, CPA

Report Quality Monitoring Committee

Andy Mintzer, CPA, Chair
 James Babcock, CPA, Vice Chair
 Claus Agger-Nielsen, CPA
 Maurice Eckley Jr., CPA
 Michael Haas, CPA
 James Kasim, CPA
 Federico Quinto, Jr., CPA
 Michael R. Maruchau, CPA
 Curtis R. Natham, CPA
 David Robinson, CPA
 Raymond Russell, CPA
 Seid Sadat, CPA
 Kenneth Scurlock, CPA
 Richard Sierra, CPA
 James Ulvog, CPA

Qualifications Committee

Paul Koreneff, CPA, Chair
 Waldemar Faimann III, CPA, Vice Chair
 Gary J. Bong, CPA
 Roger Bulosan, CPA
 Nancy J. Corrigan, CPA
 Tracy Garone, CPA
 Cheryl Gerhardt, CPA
 David Graham, CPA
 Hamid Kabani, CPA
 Stephen Larson, CPA
 Alice Norwood, CPA
 Janet Rosman, CPA
 Terri Webster, CPA
 Michael Williams, CPA

What's the Difference?

CBA's Report Quality Monitoring Program and the AICPA'S Peer Review Program

Sometimes when a licensee who prepares financial reports is selected for the Board's Report Quality Monitoring (RQM) Program, the question is asked, "I've already done peer review with the AICPA — so why do I have to be reviewed by the Board?"

Simply put, the Board's RQM Program and the AICPA's Peer Review Program are not one and the same. In fact, the two programs differ significantly. A major distinction is that the RQM program reviews an individual licensee (a sole practitioner or a member of a firm responsible for at least one financial report in the past two years), while the AICPA Peer Review program examines firms. Licensees are not charged a fee when reviewed by the RQM Program.

Failure or refusal to comply with the Board's written request for the financial report within 30 days of receipt constitutes a violation of Section 5100(f) of the Accountancy Act.

REPORT QUALITY MONITORING PROGRAM

The RQM program randomly selects licensees on the basis of a statistical sampling and requests them to submit copies of the highest level financial report (audit, review, or compilation) issued during the two years preceding the license expiration date. The RQM program reviews a licensee's work approximately every five years.

There are four possible ratings: Satisfactory, Acceptable, Marginal, and Substandard.

If the financial report is rated Satisfactory or Acceptable, the licensee is released from the program. All Marginal and Substandard reports are reviewed by a second committee member to ensure consistency and concurrence in the evaluations. Marginal and Substandard ratings require submission of a subsequent financial statement after the completion of the recommended or required continuing education courses.

Program selection is based upon licensees renewing in active status and indicating on the renewal form that they had primary responsibility for *and authority to sign* at least one financial statement during the two years preceding license expiration. From this group, 45 licensees are selected each month. A control group of five licensees is selected from the pool of licensees who indicated on their renewal forms that they had received an "unmodified" rating on a peer or quality review during the prior two-year period.

The RQM program conducts one type of report evaluation, which consists of reviewing a licensee-selected financial statement (and accompanying notes, if any) of the highest level of service performed. The financial statement review is performed by the Board's Report Quality Monitoring Committee (RQMC), composed of a maximum of 15 Board-appointed Certified Public Accountants.

The committee reviews the financial statements, using a list of standard comments to communicate any deficiencies found. It also may recommend or require a licensee to complete continuing education courses in specific subject areas to correct the deficiencies noted.

Approximately 33 percent of the licensees renewing in active status in each two-year renewal cycle are selected for RQMC review. The financial statements of about 600 licensees are reviewed per year, in addition to the subsequent financial reports of licensees who received a Marginal or Substandard rating in their initial report evaluations. The response or nonresponse of a selected licensee does not affect renewal of a licensee's CPA/PA certificate. The program is considered instead "educational." However, nonresponse or repeated marginal or substandard responses may be referred to Board's Enforcement Division for review and possible action.

Additional information regarding the RQM Program is available at www.dca.ca.gov/cba.

(Please see What's the Difference?, continued on page 11)

AICPA PEER REVIEW PROGRAM

To be admitted or to retain firm or individual membership in the AICPA, members are required to undergo a peer review every three years if they have an accounting and auditing practice. Peer Review is comprised of one of three reviews: a “System Review,” an “Engagement Review,” and a “Report Review” — depending upon by the type of accounting and auditing practice of the firm.

The highest level, a System Review, covers the firm’s system of quality control. A System Review is required for all firms that perform engagements under the Statement on Auditing Standards (SAS), Government Auditing Standards, or examinations of prospective financial statements under the Statement on Standards for Attestation Engagement (SSAE). Firms that audit businesses under the Security Exchange Commission Practice Section (SECPS) also are required to undergo a System Review. Peer reviews of California firms are conducted under the supervision of the California Society of CPAs.

An Engagement Review is the mid-level evaluation conducted for firms that perform accounting and auditing engagements such as reviews as well as compilations with full disclosures, including a review of any required documentation

A Report Review is the lowest level. It applies to firms performing only compilations under Statements on Standards for Accounting and Review Services (SSARS) for financial statements that omit substantially all disclosures, and SSARS 8 engagements restricted to “management use only” statements.

Peer Review has three different ratings: Unmodified, Modified, and Adverse. A California firm that receives a modified or adverse result is required to respond to a review team rather than the peer reviewer. The response is addressed to the California Society of CPAs; CalCPA then will determine the required follow-up. A firm must sign an acknowledgment agreement on the matters presented in the reviewer’s report.

The Peer Review Program has costs associated with enrollment in the program and additional fees for the review itself. Details concerning the AICPA’s Peer Review Program are available at www.aicpa.org.

The chart below summarizes the differences between the Board’s RQM program and the AICPA’s Peer Review program. ❖

RQM Program - AICPA Peer Review Comparison Chart

	Review Subject	Agency	SSARS 8 (Management Use Only)	Mandatory Review	Period between Review	Fee	Reviewer	Selection Criteria	Confidential
CBA RQM Program	Licensee	CBA Committee	No	Yes, if selected.	5+ years	No	CPA	Meets A&A requirement. Had primary responsibility for and authority to sign Financial Reports.	Yes
AICPA Peer Review Program	Firm	Professional Association-Approved Peer Reviewers	Yes	Yes, for membership if firm has an accounting & auditing practice.	3 years	Yes	CPA	AICPA membership. Type of accounting & auditing practice.	Yes

Regulation Notice

TITLE 16. CALIFORNIA BOARD OF ACCOUNTANCY

NOTICE IS HEREBY GIVEN that the California Board of Accountancy is proposing to take the action described in the Informative Digest. Any person interested may present statements or arguments orally or in writing relevant to the action proposed at a hearing to be held at the Four Points Sheraton, 530 West Pico Blvd., Santa Monica, CA 90405, at 2:00 p.m., on March 22, 2003. Written comments, including those sent by mail, facsimile, or e-mail to the addresses listed under Contact Person in this Notice, must be received by the California Board of Accountancy at its office no later than 5:00 p.m. on March 21, 2003 or must be received by the California Board of Accountancy at the hearing. The California Board of Accountancy, upon its own motion or at the instance of any interested party, may thereafter adopt the proposals substantially as described below or may modify such proposals if such modifications are sufficiently related to the original text. With the exception of technical or grammatical changes, the full text of any modified proposal will be available for 15 days prior to its adoption from the person designated in this Notice as Contact Person and will be mailed to those persons who submit written or oral testimony related to this proposal or who have requested notification of any changes to the proposal.

Authority and Reference: Pursuant to the authority vested by Sections 5010, 5018, 5027, 5061, 5063, 5079, and 5098 of the Business and Professions Code and Section 11400.20, Government Code, and to implement, interpret or make specific Sections 114, 122, 163, 313.2, 5018, 5020, 5026, 5027, 5061, 5063, 5079, 5081, 5082, 5082.1, 5082.2, 5090, 5092, 5093, 5097, 5098, 5100, 5103, 5108, 5134, Business and Professions Code and Section 11425.50(e), Government Code, the California Board of Accountancy is considering changes to Division 1 of Title 16 of the California Code of Regulations as follows:

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

1. Adopt Sections 6.1, 7.1, 7.2, 8.1, and 8.2, and amend Sections 6, 7, 8, 70, and 71 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt, amend, or repeal such regulations as may be necessary for the orderly administration of the Accountancy Act. Business and Professions Code Sections 5081, 5082, 5082.1, 5082.2, 5090, 5092, and 5093 contains provisions related to the examination requirements for the Certified Public Accountant license.

Existing Sections 6, 7, and 8, of Title 16 implement the examination requirement. Existing Section 70 specifies the examination fees. Existing Section 71 addresses abandonment of the application.

Commencing in early 2004, the examination for the Certified Public Accountant license will be converted from a paper and pencil examination to computer-based testing. This proposal would amend existing Sections 6, 7, 8, 70, and 71 and add new Sections 6.1, 7.1, 7.2, 8.1, and 8.2 to implement computer-based testing. Amendments to Section 70 also revise the fees for the paper and pencil Uniform CPA Examination to be consistent with the actual cost of the exam and update Section 70 by deleting outdated provisions. The objective of this proposal is to provide for conversion to computer-based testing.

2. Adopt Section 51.1 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt, amend, or repeal such regulations as may be necessary for the orderly administration of the Accountancy Act. Section 5018 authorizes the Board to adopt rules of professional conduct, and Section 5079 authorizes the Board to adopt regulations related to nonlicensee ownership.

Section 5079 was recently amended to require public accounting firms to disclose the actual or potential involvement of nonlicensee owners in the services provided (Chapter 231, Statutes of 2002). Proposed Section 51.1 implements this new requirement by specifying notification procedures. The objective of this proposal is to clarify the notification requirement established by the 2002 amendments to Section 5079.

3. Amend Section 52 and repeal Section 52.1 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt, amend, or repeal such regulations as may be necessary for the orderly administration of the Accountancy Act. Section 5018 authorizes the Board to adopt rules of professional conduct. Section 5100 authorizes the Board to discipline a license for unprofessional conduct and defines unprofessional conduct. Newly-enacted Section 5103 authorizes the Board to conduct investigations and inquiries, and newly-enacted Section 5108 authorizes the Board to issue subpoenas (Chapter 231, Statutes of 2002).

Existing Section 52 addresses responses to Board inquiry and existing Section 52.1 addresses failure to appear. This proposal would revise Section 52 to implement Section 5108. Current Section 52.1 contains outdated provisions. With the amendment of Section 52 as proposed, Section 52.1 can be repealed. The objective of this proposal is to update the Board's regulations on response to inquiries to implement newly-enacted laws.

4. Adopt Section 56.4 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt, amend, or repeal such regulations as may be necessary for the orderly administration of the Accountancy Act. Section 5018 authorizes the Board to adopt rules of professional conduct. Section 5061 relates to commissions and requires the Board to adopt implementing regulations.

(Please see Regulation Notice, continued on page 13)

Section 5061 was recently amended (Chapters 231 and 1150, Statutes of 2002) to prohibit services for a commission to the officers and directors of an attest client or a client-sponsored retirement plan. An exception was provided for the officers and directors of nonprofits and small businesses. Amendments to Section 5061 defined small business based on Section 1896 of Title 2 of the California Code of Regulations. Proposed Section 56.4 would add the definition to the Board of Accountancy's regulations for enhanced clarity. The objective of this proposal is to clarify the provisions of newly amended Section 5061 for the Board's licensees.

5. Adopt Sections 59, 60, and 61 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt, amend, or repeal such regulations as may be necessary for the orderly administration of the Accountancy Act. Section 5018 authorizes the Board to adopt rules of professional conduct.

Business and Professions Code Section 5063 was recently amended to add new self-reporting requirements for licensees of the California Board of Accountancy and to authorize the Board to adopt regulations to further define those requirements (Chapter 231, Statutes of 2002).

This proposal would adopt new Sections 59, 60, and 61 to clarify requirements for the self-reporting of restatements, settlements, arbitration awards, and judgments. This proposal also provides for the self-reporting of investigations initiated by the Public Company Accounting Oversight Board. The objective of this proposal is to clarify newly-enacted self-reporting requirements.

6. Adopt Sections 68.2, 68.3, 68.4, and 68.5 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt, amend, or repeal such regulations as may be necessary for the orderly administration of the Accountancy Act. Section 5018 authorizes the Board to adopt rules of professional conduct.

Newly-enacted Section 5097 establishes audit documentation requirements for licensees of the California Board of Accountancy, and newly-enacted Section 5098 authorizes the Board to adopt regulations related to audit documentation and documentation retention/destruction policies (Chapter 230, Statutes of 2002).

Proposed Sections 68.2, 68.3, 68.4, and 68.5 implement these new laws by specifying requirements for the components of documentation, retention periods, changes in documentation, and retention/destruction policies. The objective of this proposal is to implement newly-enacted laws related to audit documentation.

7. Amend Sections 88 and 88.2 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5026 mandates continuing education for licensees of the California Board of Accountancy and Section 5027 requires the Board to adopt regulations specifying continuing education requirements.

Current Section 88 defines qualifying continuing education programs, and current Section 88.2 describes program measurement for various course formats. This proposal updates and clarifies requirements. The proposed revisions to Section 88 add a definition of "formal program of learning" and clarify that self-study modules for certain national examinations may qualify as continuing education. This proposal also updates the program measurement requirements for self-study continuing education to be more consistent with national professional standards. The objective of this proposal is to enhance the clarity of the Board's continuing education requirements and to update these requirements for enhanced consistency with national standards.

8. Amend Section 98 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt, amend, or repeal such regulations as may be necessary for the orderly administration of the Accountancy Act. Section 5018 authorizes the Board to adopt rules of professional conduct. Section 5100 authorizes the Board to discipline a license for unprofessional conduct and defines unprofessional conduct. Government Code Section 11400.20 authorizes state agencies to adopt regulations governing adjudicative proceedings, and Government Code Section 11425.50(e) indicates that penalties cannot be based on a guideline unless the guideline is adopted as a regulation.

Existing Section 98 incorporates by reference the California Board of Accountancy's disciplinary guidelines entitled "A Manual of Disciplinary Guidelines and Model Disciplinary Orders" (4th edition, 2000).

Section 5100 has been amended and the subdivisions have been re-lettered (Chapters 230 and 231, Statutes of 2002). The disciplinary guidelines are being revised to address this re-lettering. This proposal would amend Section 98 to incorporate by reference the newly revised disciplinary guidelines. The objective of this proposal is to keep the Board's disciplinary guidelines current and to comply with relevant statutory requirements.

FISCAL IMPACT ESTIMATES

Fiscal Impact on Public Agencies Including Costs or Savings to State Agencies or Costs/Savings in Federal Funding to the State: Insignificant.

Nondiscretionary Costs/Savings to Local Agencies: None.

(Please see Regulation Notice, continued on page 14)

Local Mandate: None.

Cost to any Local Agency or School District for which Government Code Section 17561 Requires Reimbursement: None.

Business Impact:

The California Board of Accountancy has made an initial determination that the proposed regulatory action would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

AND

The following studies were relied upon in making that determination: None.

Impact on Jobs/New Businesses:

The California Board of Accountancy has determined that this regulatory proposal will not have any impact on the creation of jobs or new businesses or the elimination of jobs or existing businesses or the expansion of businesses in the State of California.

Cost Impact on Representative Private Person or Business:

The California Board of Accountancy is not aware of any significant cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

Effect on Housing Costs: None

EFFECT ON SMALL BUSINESS

The California Board of Accountancy has determined that the proposed regulations would affect small businesses.

CONSIDERATION OF ALTERNATIVES

The California Board of Accountancy must determine that no reasonable alternative which it considered or that has otherwise been identified and brought to its attention would either be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposal described in this Notice.

Any interested person may present statements or arguments orally or in writing relevant to the above determinations at the above-mentioned hearing.

INITIAL STATEMENT OF REASONS AND INFORMATION

The California Board of Accountancy has prepared an initial statement of the reasons for the proposed action and has available all the information upon which the proposal is based.

TEXT OF PROPOSAL

Copies of the exact language of the proposed regulations and of the initial statement of reasons, and all of the information upon which the proposal is based, may be obtained at the hearing or prior to the hearing upon request from the California Board of Accountancy at 2000 Evergreen Street, Suite 250, Sacramento, California 95815.

AVAILABILITY AND LOCATION OF THE FINAL STATEMENT OF REASONS AND RULEMAKING FILE

All the information upon which the proposed regulations are based is contained in the rulemaking file which is available for public inspection by contacting the person named below.

You may obtain a copy of the final statement of reasons once it has been prepared, by making a written request to the contact person named below or by accessing the web site listed below.

CONTACT PERSON

Inquiries or comments concerning the proposed administrative action may be addressed to:

Name:	Aronna Granick
Address:	California Board of Accountancy 2000 Evergreen Street, Suite 250 Sacramento, CA 95815
Telephone No.:	(916) 263-3788
Fax No.:	(916) 263-3675
E-Mail Address:	regcomment103@cba.ca.gov

(Please see Regulation Notice, continued on page 15)

California Board of Accountancy

The backup contact person is:

Name: Mary Crocker
Address: California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

Telephone No.: (916) 263-3940
Fax No.: (916) 263-3675
E-Mail Address: regcomment103@cba.ca.gov

Inquiries concerning the substance of the proposed regulations may be directed to Aronna Granick at (916) 263-3788.

Web site Access: Materials regarding this proposal can be found at www.dca.ca.gov/cba.

TEXT OF PROPOSAL

Section 6. Examination Required, Passing Grades, Provisions for Disabled Applicants.

(a) Every candidate for the CPA license is required to pass or to have passed the Uniform Certified Public Accountant Examination prepared by the American Institute of Certified Public Accountants or to otherwise have met the examination requirements of Business and Professions Code Sections 5082, 5092, or 5093 and the requirements of this article .

(b) During the time the Uniform Certified Public Accountant Examination is a paper-and-pencil examination, the ~~The~~ passing score for any section of the Uniform Certified Public Accountant Examination is 75. Upon commencement of computer-based testing, the Uniform Certified Public Accountant Examination will be a pass/fail examination.

(c) A disabled candidate, upon request and presentation of satisfactory evidence of need, in accordance with the Americans with Disabilities Act will be afforded such accommodation in the examination procedures or the examination conditions as may be reasonable.

NOTE: Authority cited: Section 5010, Business and Professions Code. Reference: Sections 313.2, 5082, 5082.1, 5082.3, 5092, and 5093, Business and Professions Code.

Section 6.1. Additional Requirements for Computer-Based Testing.

Upon the commencement of computer-based testing in California, applicants are responsible for contacting the National Association of State Boards of Accountancy to obtain a Notice to Schedule pursuant to Section 8.1 and the examination test centers to obtain a date to examine, in accordance with instructions provided by the Board. Applicants shall pay all required fees and comply with test center procedures and rules.

NOTE: Authority cited: Section 5010, Business and Professions Code. Reference: Sections 5082, 5082.1, 5082.2, 5092, and 5093, Business and Professions Code.

Section 7. Conditional Examination Credit Requirements for Applicants Who Will be Applying for Licensure Pursuant to Business and Professions Code Section 5090(b).

(a) A candidate who passes two or more subjects at any examination shall receive a conditional credit for such subject or subjects and shall have the right to be re-examined in the remaining subject or subjects for the six (6) examinations immediately following receipt of such conditional credit and, if such remaining subject or subjects are passed during the six subsequent examinations, the candidate shall be considered to have passed the examination.

(b) The conditional period in subsection (a) may be extended by the Board upon a showing of extraordinary extenuating circumstances which prevented the applicant from retaking the examination in such period.

(c) Time during which a candidate is serving in the armed forces shall be excluded in determining the conditional period in subsection (a) unless the candidate takes an examination while so serving, in which case such time shall be included in computing the conditional period.

(d) This section shall become inoperative on January 1, 2006.

(e) Upon commencement of the computer-based Uniform Certified Public Accountant Examination, candidates holding conditional credit under this section may complete the examination pursuant to Section 7.2.

NOTE: Authority cited: Sections 5010 and 5018, Business and Professions Code. Reference: Sections 114, 5082, 5082.2, and 5090, Business and Professions Code.

Section 7.1. Credit Status for the Computerized Uniform CPA Examination.

(a) Upon the commencement of computer-based testing in California, an applicant may sit for the four sections of the computer-based Uniform Certified Public Accountant Examination individually and in any order. An applicant who fails to pass any section of the examination may retake that section. When the applicant has credit for all four sections of the examination within an 18-month period, the applicant shall be considered to have passed the examination.

(Please see Regulation Notice, continued on page 16)

(b) Except as provided in subsection (c), an applicant shall retain credit for any section the applicant has passed for an 18-month period beginning with the date that the section of the exam was passed. At the end of the 18-month period, credit for that section expires, and that section must be re-taken and passed to re-establish credit.

(c) A first-time applicant who passes any section of the computer-based Uniform Certified Public Accountant Examination during the six months immediately following commencement of computer-based testing in California shall retain credit for that section for a 24-month period beginning with the date the section of the exam was passed. At the end of the 24-month period, credit for that section expires. The section may be re-taken pursuant to subsection (b) of this section.

(d) A candidate may sit for any unpassed section of the examination only one time during each testing window. A testing window is a three-month period as determined by the American Institute of Certified Public Accountants during which applicants may take the exam. There are four three-month testing windows in a year. To allow for routine maintenance, the exam may be unavailable for up to one month during each testing window.

(e) Credit for passed examination sections may be extended by the Board because the applicant was prevented from sitting for an unpassed section or sections before credit for passed sections expired pursuant to subsections (b) or (c) because of one of the following events:

(1) Death of an immediate family member. Documentation, such as a copy of the death certificate, must be submitted.

(2) Catastrophic illness, contagious disease, or major traumatic injury to the candidate or immediate family member (spouse, child or parent). Submit an original letter on letterhead from the physician, which includes the date(s), nature of the illness, and the physician's signature.

(3) Natural disaster (earthquake, flood, fire, etc.).

(4) Non-issuance of visa for travel to the U.S. Documentation, such as an official letter from the U.S. Embassy or a copy of the passport indicating a visa was requested, must be submitted.

(5) Other good cause.

NOTE: Authority cited: Section 5010, Business and Professions Code. Reference: Sections 5081, 5082, 5082.1 and 5082.2, 5090, 5092 and 5093, Business and Professions Code.

Section 7.2. Transition to Computer Based Testing.

(a) Upon commencement of computer-based testing in California, a candidate who has already passed two or more sections of the examination in accordance with the requirements of Section 5092 or 5093 of the Business and Professions Code or Section 7 of these regulations will receive credit for the computer-based equivalent of those sections as specified in subsection (b). This credit will expire 18 months after commencement of computer-based testing in California. During this 18 month period, a candidate will have the same number of opportunities to sit for the exam as the candidate would have had to take the paper-and-pencil exam.

(b) This table indicates the computer-based equivalent of the sections of the paper-and-pencil Uniform Certified Public Accountant Examination:

<u>Paper-and-Pencil Examination</u>	<u>Computer-Based Examination</u>
<u>Auditing</u>	<u>Auditing & Attestation</u>
<u>Financial Accounting & Reporting (FARE)</u>	<u>Financial Accounting & Reporting</u>
<u>Accounting & Reporting (ARE)</u>	<u>Regulation</u>
<u>Business Law & Professional Responsibilities (LPR)</u>	<u>Business Environment & Concepts</u>

(c) A candidate who does not pass the examination in accordance with subsection (a) will retain credit for sections of the computerized exam passed by the candidate in accordance with subsection (b) of Section 7.1.

NOTE: Authority cited: Section 5010, Business and Professions Code. Reference: Sections 5081, 5082, 5082.1 and 5082.2, 5090, 5092 and 5093, Business and Professions Code.

Section 8. Examination Final Filing Dates.

(a) During the time the Uniform CPA Examination is a paper and pencil examination, applications Applications for the Uniform CPA Examination must be received by the Board at its office or postmarked on or before the below final filing dates in order to be accepted for that exam. Applications postmarked after the final filing dates listed in this section shall be rejected and returned to the applicant. Meter marks are not acceptable proof of mailing.

(b) First-time Applicant Final Filing Date.

(1) The final filing date for applicants who have never sat for the Uniform CPA Exam in California shall be February 1 for the May examination, or August 1 for the November examination. If the examination final filing date falls on a Sunday or a National holiday on which the United States Postal Service is not open, the final filing date will be the next business day.

(2) The application must be complete, including official transcripts and/or foreign evaluations pursuant to Section 9 or Section 9.2, and the appropriate fees, or it shall be rejected by the Board and the applicant will not be scheduled to sit for the examination.

(Please see Regulation Notice, continued on page 17)

(c) Repeat Applicant Final Filing Date.

(1) The final filing date for applicants who have previously taken the Uniform CPA Exam in California shall be March 1 for the May examination, or September 1 for the November examination. If the examination final filing date falls on a Sunday or a National holiday on which the United States Postal Service is not open, the final filing date will be the next business day.

(2) The application must be complete including the appropriate fees or it shall be rejected by the Board and the applicant will not be scheduled to sit for the examination.

NOTE: Authority cited: Section 5010, Business and Professions Code. Reference: Sections 5081, 5082, 5082.1 and 5082.2, 5092 and 5093, Business and Professions Code.

Section 8.1. The Authorization to Test and Notice to Schedule for the Computer-based Uniform CPA Examination.

(a) An Authorization to Test (ATT) is issued by the Board to permit the applicant to test for specified sections of the computer-based Uniform Certified Public Accountant Examination. An ATT for a specified section or sections of the exam shall go into effect (be open) on the date of issuance. Within 90 calendar days of the date the ATT is issued, the applicant must remit the required fees to obtain a Notice to Schedule (NTS) pursuant to Section 6.1. If the applicant fails to remit fees and obtain the NTS, the ATT shall be deemed expired and the applicant must reapply and be issued another ATT to be able to test for that section.

(b) The NTS will enable the applicant to schedule testing at an examination test center and shall remain open until either the applicant schedules testing for the specified section(s) or nine months have transpired since the date the NTS was issued, whichever occurs first. The ATT will remain open during the time the corresponding NTS is also open.

(c) If for any reason an applicant does not pass a section of the exam during the time the applicant holds an open ATT for that section, the applicant cannot test for that section until the applicant reapplies and is issued another ATT for that section pursuant to Section 8.2.

(d) An ATT may be suspended by the Board based on a report from the National Association of State Boards of Accountancy that its National Candidate Database has identified a problem related to the applicant. An ATT may also be suspended by the Board for other good cause.

NOTE: Authority cited: Section 5010, Business and Professions Code. Reference: Sections 5081, 5082, 5082.1 and 5082.2, 5092 and 5093, Business and Professions Code.

Section 8.2. Requirements for Issuance of the Authorization to Test.

(a) An application for an Authorization to Test (ATT) for the computer-based Uniform CPA Examination pursuant to Section 8.1 must be complete including the appropriate fees and must specify the section(s) of the exam the applicant is applying to take. First-time applicants must also provide official transcripts and/or foreign evaluations pursuant to Section 9.2.

(b) An applicant shall not have more than one open ATT for any section of the examination at the same time. At the time of application and during the time any ATT issued by the California Board of Accountancy is open, the applicant shall not have an open ATT for the same section in any other state or jurisdiction.

(c) The applicant shall not apply to take, or take, any section or sections of the examination for which the applicant holds unexpired credit pursuant to Sections 7.1 or 7.2, with the following exceptions:

(1) An applicant may reapply and retake the examination pursuant to Section 13(b) or Section 14(b) of these regulations.

(2) An applicant for reissuance who does not currently hold a Certified Public Accountant license in another jurisdiction may retake the examination pursuant to Section 37 of these regulations.

(d) The applicant shall certify at the time of application that he or she is in compliance with subsections (b) and (c). Falsifying this certification; or including any false, fraudulent, or materially misleading statements on the application for the examination; or including any material omission on the application for the examination shall be cause for action by the Board pursuant to Business and Professions Code 5110.

(e) Except for a licensee who is required to take specified sections of the examination pursuant to a disciplinary action of the Board, no licensee shall apply to take, or take, any section of the Uniform Certified Public Accountant Examination. A licensee who fails to comply with this requirement shall be subject to disciplinary action by the Board.

NOTE: Authority cited: Section 5010, Business and Professions Code. Reference: Sections 5081, 5082, 5082.1 and 5082.2, 5092 and 5093, Business and Professions Code.

Section 51.1. Notification of Non-licensee Ownership.

(a) Any firm with a nonlicensee owner or owners shall notify each client of the actual or potential involvement of a nonlicensee owner or owners in any service to be provided to the client by the firm. Notice shall be provided by any of the following methods:

(1) Providing a statement to each client to be signed and dated by the client and retained in the firm's records that states that the client understands that services will or may be provided by a nonlicensee owner of the firm.

(2) Including a statement that the firm has a nonlicensee owner or owners who may provide client services in any contract for services, proposal letter, or engagement letter with the client.

(b) A copy of the statement, contract, engagement letter, or proposal letter containing this notice shall be maintained by the public

(Please see Regulation Notice, continued on page 18)

accounting firm in the client's files for a minimum of five years from the date of the notice.

Note: Authority cited: Sections 5010, 5018, and 5079, Business and Professions Code. Reference: Section 5079, Business and Professions Code.

Section 52. Response to Board Inquiry.

A licensee shall respond to any inquiry by the Board or its appointed representatives. The response shall include making available all files, working papers and other documents requested. Failure to respond to the inquiry within 30 days constitutes a violation of Section 5100(f) of the Accountancy Act. Any inquiry by the Board requiring a response pursuant to this section shall be in writing. The 30-day response period begins when the inquiry is mailed to the licensee, or if not mailed, when personally delivered.

(a) A licensee shall respond to any inquiry by the Board or its appointed representatives in a timely manner. The response shall include making available all files, working papers and other documents requested.

(b) A licensee shall respond to any subpoena issued by the Board or its appointed representatives in a timely manner and in accordance with the provisions of the Accountancy Act and other applicable laws or regulations.

(c) A licensee shall appear in person upon written notice or subpoena issued by the Board or its appointed representatives.

(d) A licensee shall provide true and accurate information and responses to questions, subpoenas, interrogatories or other requests for information or documents and not take any action to obstruct any Board inquiry, investigation, hearing or proceeding.

NOTE: Authority cited: Sections 5010 and 5018, Business and Professions Code. Reference: Section Sections 5018, 5100, 5103, 5108, Business and Professions Code.

Section 52.1. Failure to Appear.

Willful failure or refusal by a licensee to comply with a written notice of the Board, the Administrative Committee, or any other designated committee to appear in person constitutes a violation of Section 5100(f) of the Accountancy Act. The written notice shall be delivered not less than 10 working days in advance of the appearance. No licensee shall be required to travel further than the distance to the closest Board or Committee meeting scheduled within 4 months of the date of the notice. Licensees who fail to appear will be required to appear at the next regularly scheduled meeting of the Board or Committee. The written notice shall specify the place of such appearance.

NOTE: Authority cited: Sections 5010 and 5018, Business and Professions Code. Reference: Sections 5018 and 5020, Business and Professions Code.

Section 56.4. "Officer" and "Director."

The terms "director" and "officer" as defined under Section 5061 (c) does not include a director or officer of a nonprofit corporation, or a corporation that together with any affiliates, has 100 or less employees or average annual gross receipts of ten million dollars (\$10,000,000) or less over the previous three tax years. The term "average annual gross receipts" means all pecuniary gross receipts (less returns, allowances and interaffiliate transactions), the assignment of such receipts notwithstanding, of a business concern from whatever source derived, as entered or to have been entered on its regular books of account for its most recently completed fiscal year (whether on a cash, accrual, completed contracts, percentage of completion or other commonly recognized and accepted accounting method).

NOTE: Authority cited: Sections 5010, 5018, and 5061, Business and Professions Code. Reference: Section 5061, Business and Professions Code.

Section 59. Reporting of Restatements.

(a) To comply with the requirements of paragraph (1) of subdivision (b) of Business and Professions Code Section 5063, a licensee who issues a report on a client's restated financial statement shall report to the Board:

(1) Any restatement of a financial statement reporting the correction of any error, as defined in professional standards, in a previously issued financial statement of a client that is:

(A) a publicly traded company located, incorporated, or doing business in California;

(B) a government agency located in California; or

(C) any other entity where disclosure of the financial statement is required by law and the entity is incorporated, located, or doing business in California.

(2) Any restatement of a financial statement of a charitable organization registered by the Office of the Attorney General's Registry of Charitable Trusts which is issued for purposes of correcting any error in a previously issued financial statement and which has resulted in the filing of an amended or superseding Internal Revenue Service Form 990 or 990PF.

(b) The report required by subsection (a) shall be made by the licensee issuing the report on the restatement even if the licensee did not perform the original audit. The report required by subsection (a) shall be provided to the Board within 30 days of issuance of the restatement, shall be signed by the licensee, and shall set forth the facts which constitute the reportable event including an

explanation of the reason for the restatement. The report made under paragraph (a)(1) of this section shall include copies of the original and the restated financial statements. The report made under paragraph (a)(2) of this section shall include only those portions of the original and the amended Forms 990 or 990PF related to the reissued financial statement.

Note: Authority Cited Sections 5010, 5018, and 5063, Business and Professions Code. Reference: Section 5063, Business and Professions Code.

Section 60. Reporting of Investigations by the Public Company Accounting Oversight Board.

(a) For purposes of reporting pursuant to Section 5063 (b)(5), notice of the opening or initiation of an investigation by the Public Company Accounting Oversight Board shall include any notice by the Public Company Accounting Oversight Board that it is initiating an investigation of the licensee or any associated person of the licensee in connection with any services performed by the licensee or the associated person.

(b) For purposes of this section "associated person" means the same as in the Sarbanes-Oxley Act of 2002 as follows: any individual proprietor, partner, shareholder, principal, accountant, or other professional employee of a public accounting firm, or any other independent contractor or entity that, in connection with the preparation or issuance of any audit report – (i) shares in the profits of, or receives compensation in any other form from, that firm; or (ii) participates as agent or otherwise on behalf of such accounting firm in any activity of that firm.

Note: Authority Cited Sections 5010, 5018, and 5063, Business and Professions Code. Reference: Section 5063, Business and Professions Code.

Section 61. The Reporting of Settlements, Arbitration Awards, and Judgments.

(a) To meet the reporting requirements paragraph (b)(2) of Section 5063, licensees shall report settlements and arbitration awards consistent with that provision that are the result of actions brought by persons located, residing, or doing business in California.

(b) Reports of judgments in civil actions alleging negligent conduct by a licensee pursuant to paragraph (c)(1) of Section 5063 shall be limited to those judgments in which a person residing in or doing business in California is a party to the action or where the alleged conduct relates to the practice of public accountancy in California.

Note: Authority Cited Sections 5010, 5018, and 5063, Business and Professions Code. Reference: Section 5063, Business and Professions Code.

Section 68.2. Components of Audit Documentation.

(a) In addition to the requirements specified in Business and Professions Code Section 5097, audit documentation shall include, but not be limited to, the following:

- (1) the objectives, scope, and methodology, including any sampling criteria used;
- (2) documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to examine the same transactions and records; and
- (3) evidence of any supervisory reviews of the work performed.

(b) To provide for the identification of audit documentation, audit documentation shall include an index or guide to the audit documentation which identifies the components of the audit documentation. Audit documentation shall provide the date the document or working paper was completed by the preparer(s) and any reviewer(s), and shall include the identity of the preparer(s) and any reviewer(s).

Note: Authority cited: Section 5010, 5018, and 5098, Business and Professions Code. Reference: Sections 5097 and 5098, Business and Professions Code.

Section 68.3. Retention Period for Audit Documentation.

(a) The retention period mandated by Business and Professions Code Section 5097 shall be measured from the report date.

(b) If audit documentation is required to be kept for longer than seven years because of a pending Board investigation or disciplinary action, audit documentation shall not be destroyed until the licensee has been notified in writing by the Board of the closure of a Board investigation or disciplinary proceeding.

(c) Any documents required to be maintained by Business and Professions Code Section 5097 or these regulations shall be maintained in accessible form.

Note: Authority cited: Section 5010, 5018, and 5098, Business and Professions Code. Reference: Sections 5097 and 5098, Business and Professions Code.

Section 68.4. Changes in Audit Documentation After Issuance of the Report.

(a) Changes in audit documentation include any addition, removal, deletion, substitution, or editing of audit documentation, including, but not limited to, physical or electronic additions to any audit documentation file or preexisting audit documentation, occurring after the date of issuance of the audit report which is supported in whole or in part by the audit documentation.

(Please see Regulation Notice, continued on page 20)

(b) Audit documentation shall include both the report date and the date of issuance of the report.

(c) In addition to any other documentation required by professional standards, any changes in audit documentation shall provide the identity of the person(s) making the change, and identity of any person(s) approving the change, the date of the change, and the reason for the change if the reason is other than the assembling of pre-existing documents. The documentation which is changed shall contain sufficient detail to enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to understand the nature, timing, reason for, and extent of the change.

Note: Authority cited: Section 5010, 5018, and 5098, Business and Professions Code. Reference: Sections 5097 and 5098, Business and Professions Code.

Section 68.5. Audit Documentation Retention and Destruction Policy.

(a) Licensees shall maintain, and document compliance with, a written Audit Documentation Retention and Destruction Policy which provides for the preservation of audit documentation for the full time period required by Business and Professions Code Section 5097. The policy and documentation of compliance shall be available to the Board upon request.

(b) This policy shall provide for the authorized custody, security, access, retention, and destruction of the documentation. This policy shall, at a minimum, include the following:

- (1) procedures for the maintenance of back-up copies of electronic audit documentation at secure locations,
- (2) procedures for maintaining audit documentation,
- (3) procedures for approving any changes to audit documentation,
- (4) procedures for approving the destruction of documentation when no longer required to be maintained by Business and Professions Code Section 5097.

(c) The procedure required by subsection (b)(4) shall provide for identifying the persons authorized to approve the destruction of audit documentation and shall require that an authorized person verify compliance with subdivisions (d) and (e) of Business and Professions Code Section 5097 at the time of document destruction.

Note: Authority cited: Section 5010, 5018, and 5098, Business and Professions Code. Reference: Sections 5097 and 5098, Business and Professions Code.

Section 70. Fees.

(a) ~~(1) Commencing July 1, 2001, the fees to be charged each California applicant for the certified public accountant examination, including each applicant for re-examination, shall be an application fee of \$60 and a fee of \$31 for each part of the examination requested by the applicant.~~

~~(2) (1) Commencing July 1, 2002, the fees to be charged each California applicant for the paper and pencil certified public accountant examination, including each applicant for re-examination, shall be an application fee of \$60 and a fee of \$45 \$36 for each part of the examination requested by the applicant.~~

~~(3) (2) The fee to be charged each applicant from another state who sits for the paper and pencil certified public accountant examination in California shall be a total of \$75.~~

~~(3) Commencing January 1, 2004, the fee to be charged each California applicant for the computer-based Uniform Certified Public Accountant, shall be an application fee of \$100 for issuance of the Authorization to Test to first-time applicants and an application fee of \$50 for issuance of the Authorization to Test to repeat applicants.~~

(b) Commencing July 1, 2001, the fee to be charged each applicant for issuance of a certified public accountant certificate shall be \$250.

(c) The fee to be charged each applicant for registration, including applicant for registration under a new name as a partnership or as a corporation, shall be \$150.

~~(d)(1) Commencing August 3, 1998, the fee to be charged each applicant for the initial permit to practice as a partnership, a corporation, or a certified public accountant shall be \$50.~~

~~(2) Commencing July 1, 2000, the fee to be charged each applicant for the initial permit to practice as a partnership, a corporation, or a certified public accountant shall be \$200 unless subsection (h) applies.~~

~~(e) (1) Commencing August 3, 1998, the fee to be charged each applicant for renewal of a permit to practice as a partnership, a corporation, or a certified public accountant shall be \$50.~~

~~(2) Commencing July 1, 2000, the fee to be charged each applicant for renewal of a permit to practice as a partnership, a corporation, a public accountant, or a certified public accountant shall be \$200 unless subsection (h) applies.~~

(f) The fee for the processing and issuance of a duplicate copy of a certificate of licensure or registration shall be \$10.

(g) The fee for processing and issuance of a duplicate copy of a registration, or permit or other form evidencing licensure or renewal of licensure shall be \$2.

~~(h) By January 30, 2000, the Board shall conduct a review of its actual and estimated costs. Based on this review, the Board shall determine the appropriate level of fees for the initial permit to practice pursuant to subsection (d) and renewal of the permit to practice pursuant to subsection (e) in order to maintain the Board's contingent fund reserve balance at an amount equal to approximately three months of annual authorized expenditures. If the Board determines that fees of less than \$200 are indicated, the Board shall fix the fees by regulation at the indicated amounts by July 1, 2000.~~

(Please see Regulation Notice, continued on page 21)

Note: Authority cited: Sections 5010 and 5018, Business and Professions Code. Reference: Sections 122, 163 and 5134 Business and Professions Code.

Section 71. Abandonment of the Application.

(a) An applicant for the paper and pencil examination who fails to appear for the examination shall be deemed to have abandoned the application and shall forfeit the examination fee; ~~except as otherwise provided in Rule 6.~~

(b) A first-time applicant for an Authorization to Test pursuant to Section 8.1 shall be deemed to have abandoned the application and shall forfeit any application fee if the applicant fails to complete the application within one year of notification by the Board of any deficiency in the application.

~~(b)~~ (c) Any application for a certificate, permit, registration, or license, including any application for renewal, shall be deemed abandoned and any application fee shall be forfeited, if the applicant fails to complete the application within two years of its original submission or within one year of notification by the Board of any deficiency in the application.

Note: Authority cited: Section 5010 and 5018, Business and Professions Code. Reference: Section 5134 Business and Professions Code.

Section 88. Programs Which Qualify.

(a) The overriding consideration in determining whether a specific program qualifies as acceptable continuing education is that it be a formal program of learning which contributes directly to the professional competence of a licensee in public practice. It is the obligation of each licensee to select a course of study, consistent with the requirements of this section and Sections 88.1 and 88.2, which will contribute directly to his or her professional competence.

(1) Licensees who renew their licenses after July 1, 2001, shall complete a minimum of 50 percent of the required continuing education hours in the following subject areas: accounting, auditing, taxation, consulting, financial planning, professional conduct as defined in Section 87.7, computer and information technology (except for word processing), and specialized industry or government practices that focus primarily upon the maintenance and/or enhancement of the public accounting skills and knowledge needed to competently practice public accounting.

(2) Licensees who renew their licenses after July 1, 2001, may claim no more than 50 percent of the required number of continuing education hours in the following subject areas: communication skills, word processing, sales, marketing, motivational techniques, negotiation skills, office management, practice management, and personnel management.

(3) Programs in the following subject areas are not acceptable continuing education: personal growth, self-realization, spirituality, personal health and/or fitness, sports and recreation, foreign languages and cultures and other subjects which will not contribute directly to the professional competence of the licensee.

(4) A formal program of learning is an instructional activity that is specifically designed and intended as continuing education or a course for which academic credit is granted by a university, college, or other institution of learning accredited by a regional or national accrediting agency.

(b) The following types of live presentation programs are deemed to qualify as acceptable continuing education provided the standards outlined in Section 88(a), Section 88.1, and Section 88.2 are maintained.

(1) Professional development programs of national and state accounting organizations.

(2) Technical session at meetings of national and state accounting organizations and their chapters which are designed as formal educational programs.

(3) University or college courses:

(i) Credit courses—each semester hour credit shall equal 15 hours toward the requirement. Each quarter hour credit shall equal 10 hours.

(ii) Non credit courses—each classroom hour will equal one qualifying hour.

(4) Other formal educational programs provided the program meets the required standards.

(c) Formal correspondence or other individual study programs are qualifying provided the program is based upon materials specifically developed for instructional use and meets the requirements of Section 88(a), Section 88.1, Section 88.2, and the licensee receives a passing score. Self-study modules for national examinations that contribute to the professional competency of a licensee in public practice, such as the Certified Financial Planner or Certified Management Accountant qualify as acceptable continuing education if the modules meet the above requirements.

(d) The credit as an instructor, discussion leader, or speaker will be allowed for any meeting or program provided that the session is one which would meet the continuing education requirements set forth in Section 88(a), Section 88.1, and Section 88.2. The credit allowed an instructor, discussion leader, or a speaker will be on the basis of actual presentation hours, plus up to two additional hours for actual preparation time for each hour taught. The maximum credit for such preparation and teaching will not exceed 50 percent of the renewal period requirement. For repeat presentations, an instructor shall receive no credit unless the instructor can demonstrate that the program content was substantially changed and that such change required significant additional study or research. Credit for licensees attending, not as instructors, discussion leader, or speakers, is limited to the actual meeting time.

(e) Credit may be allowed by the Board for the following activities:

(1) writing published articles and books provided the publisher is not under the control of the licensee.

(2) writing instructional materials for any continuing education program which meets therequirements of Section 88(a), Section 88.1, and Section 88.2,

(Please see Regulation Notice, continued on page 22)

(3) writing questions for the Uniform Certified Public Accountant Examination.

The maximum credit allowed under this subsection (subsection e) should not exceed 25 percent of the renewal period requirement.

Note: Authority cited: Section 5027, Business and Professions Code. Reference: Section 5027, Business and Professions Code.

Section 88.2. Program Measurements.

(a) Live Presentation

In order to qualify as acceptable continuing education under Section 88(b) a live presentation program must:

(1) Be measured in 50 minute class hours. A program must be at least one 50 minute class hour in length to be acceptable continuing education. For a program composed of several segments in which individual segments are less than 50 minutes, the sum of the segments, in increments not less than 25 minutes, may be added together to equal a full 50 minute class hour. For a program that is longer than one 50 minute class hour, credit shall be granted for additional 25 minute segments (one-half of a 50 minute class hour). Only class hours or the equivalent (and not participant hours devoted to preparation or study time) will be used to measure the hours of continuing education.

(2) Meet the provider requirements for live presentation under Section 88.1(a).

(b) Self-Study prior to January 1, 2004.

In order to qualify as acceptable continuing education under Section 88(c) a self-study course must:

(1) Grant continuing education credit equal to the average completion time if the self-study course is interactive. An interactive self-study program is designed to use interactive learning methodologies that simulate a classroom learning process by employing software, other courseware, or technology-based systems that provide significant ongoing interactive feedback to the participant regarding his or her learning progress. These programs clearly define lesson objectives and manage the participant through the learning process by (1) requiring frequent participant response to questions that test for understanding of the material presented, (2) provide evaluated feedback to incorrectly answered questions, and (3) reinforcement feedback to correctly answered questions. Technology-based self-study courses do not constitute interactive self-study courses unless they meet the criteria set forth above.

(2) Grant continuing education credit equal to one half of the average completion time if the self-study course is non-interactive. Any self-study course that does not meet the above criteria interactive self-study program is deemed non-interactive.

(3) Require a passing score on a test given at the conclusion of the course.

(4) Meet the provider requirements for self-study under Section 88.1(b).

(c) Self-Study on or after January 1, 2004.

In order to qualify as acceptable continuing education under Section 88(c), any self-study course completed on or after January 1, 2004, must:

(1) Grant continuing education credit equal to the average completion time if the self-study program is designed to use learning methodologies that simulate a classroom learning process by employing significant ongoing interactive feedback to the participant regarding his or her learning progress. These programs clearly define lesson objectives and manage the participant through the learning process by (1) requiring frequent participant response to questions that test for understanding of the material presented, (2) provide evaluated feedback to incorrectly answered questions, and (3) reinforcement feedback to correctly answered questions. Evaluated feedback means a response specific to each incorrect answer to the study questions that explains why the particular answer is wrong, as each one is likely to be wrong for a different reason. Reinforcement feedback means a response to the correct answer of the study questions that restates and explains why the answer selected was correct.

(2) Require a passing score on a test given at the conclusion of the course.

(3) Meet the provider requirements for self-study under Section 88.1(b).

Note: Authority cited: Section 5027, Business and Professions Code. Reference: Sections 5026 and 5027, Business and Professions Code.

Section 98. Disciplinary Guidelines.

In reaching a decision on a disciplinary action under the Administrative Procedure Act (Government Code Section 11400 et seq.), the Board shall consider the disciplinary guidelines entitled "A Manual of Disciplinary Guidelines and Model Disciplinary Order" (~~4th edition, 2000~~) (5th edition, 2003) which are hereby incorporated by reference. Deviation from these guidelines and orders, including the standard terms of probation, is appropriate where the Board in its sole discretion determines that the facts of the particular case warrant such a deviation – for example: the presence of mitigating facts; the age of the case; evidentiary problems.

Note: Authority cited: Sections 5010 and 5018, Business and Professions Code and Section 11400.20, Government Code. Reference: Sections 5018 and 5100, Business and Professions Code; and Section 11425.50(e), Government Code. ❖

Disciplinary Actions and Standard Probationary Terms

When the Board receives a complaint, an investigation is conducted. Information regarding a complaint generally is gathered by staff Investigative CPAs, often accompanied by a licensee's appearance before the Board's Administrative Committee. In some cases, information is gathered by the Department of Consumer Affairs Division of Investigation.

Following this investigation, or for other reasons, a recommendation is made either to close the case for lack of evidence, or to refer the matter to the Attorney General for review and possible preparation of an accusation against the licensee or a statement of issues relating to the applicant.

The Board may revoke, suspend, or impose probation on a license for violation of applicable statutes or regulations. In addition to any case-specific terms of probation, the standard probationary terms include:

- Obey all federal, California, other state, and local laws, including those rules relating to the practice of public accountancy in California.
- Submit within 10 days of completion of the quarter, written reports to the Board on a form obtained from the Board. The Respondent shall submit, under penalty of perjury, such other written reports, declarations, and verification of actions as are required. These declarations shall contain statements relative to respondent's compliance with all the terms and conditions of probation. Respondent shall immediately execute all release of information forms as may be required by the Board or its representatives.
- During the period of probation, appear in person at interviews or meetings as directed by the Board or its designated representative, provided such notification is accomplished in a timely manner.
- Comply with the terms and conditions of the probation imposed by the Board, and cooperate fully with representatives of the Board in its monitoring and investigation of the respondent's compliance with probation terms and conditions.
- Be subject to, and permit a "practice investigation" of the Respondent's professional practice. Such a "practice investigation" shall be conducted by representatives of the Board, provided notification of such review is accomplished in a timely manner.
- Comply with all final orders resulting from citations issued by the California Board of Accountancy.
- In the event Respondent should leave California to reside or practice outside this state, Respondent must notify the Board in writing of the dates of departure and return. Periods of non-California residency or practice outside the state shall not apply to reduction of the probationary period, or of any suspension. No obligation imposed herein, including requirements to file written reports, reimburse the Board costs, or make restitution to consumers, shall be suspended or otherwise affected by such periods of out-of-state residency or practice, except at the written direction of the Board.
- If Respondent violates probation in any respect, the Board, after giving respondent notice and an opportunity to be heard, may revoke probation and carry out the disciplinary order that was stayed. If an accusation or a petition to revoke probation is filed against Respondent during probation, the Board shall have continuing jurisdiction until the matter is final, and the period of probation shall be extended until the matter is final.
- Upon successful completion of probation, respondent's license will be fully restored.

If charges are filed against a licensee, a hearing may be held before an independent administrative law judge who submits a proposed decision to be considered by the Board of Accountancy, or the matter may be settled. The Board may either accept the proposed decision or decide the matter itself. Please note that Board actions reported here may not be final. After the effective date of the Board's decision, the licensee may obtain judicial review of its decision. On occasion, a court will order a stay of the Board's decision or return the decision to the Board for reconsideration.

Copies of the accusations, decisions, and settlements regarding any of these disciplinary actions are available by sending a written request to: California Board of Accountancy, Attention: Disciplinary Actions, 2000 Evergreen Street, Suite 250, Sacramento, CA 95815-3832. Please state the licensee's name and license number, and allow approximately three weeks for each request.

Disciplinary Board Actions 9/23/02 through 10/25/02
Revocation of CPA Certificate

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
ARTHUR ANDERSEN LLP Los Angeles, CA (PAR 21) Revocation of PAR Certificate, via default decision. Effective September 23, 2002	<p>On August 16, 2002, an accusation was filed by the California Board of Accountancy against Arthur Andersen LLP. The accusation was based on the outcome in proceedings before the Texas State Office of Administrative Hearings titled "Texas State Board of Public Accountancy v. Arthur Andersen LLP."</p> <p>By agreed consent order, Arthur Andersen LLP's license to practice public accountancy within Texas was revoked.</p> <p>The circumstances of the above-entitled matter relate to Arthur Andersen LLP's conduct in connection with its Enron Corporation engagements and the related criminal proceeding against Arthur Andersen LLP resulting in a June 15, 2002, jury verdict of guilty against Arthur Andersen LLP in the United States District Court for the Southern District of Texas-Houston Division for felony obstruction of justice.</p>	Business and Professions Code, Division 3, Chapter 1, § 5100 (d).

(Please see Disciplinary Actions, continued on page 25)

Disciplinary Definitions

Accusation

A formal document that notifies a licensee of the agency's charges against the licensee.

Cost Recovery

The licensee is ordered to pay the Board certain costs of investigation and prosecution including, but not limited to, attorney fees.

Default Decision

The licensee failed to file a Notice of Defense or has otherwise failed to request a hearing, object, or otherwise contest the accusation. The Board takes action without a hearing based on the accusation and documentary evidence on file.

Effective Date

The date the disciplinary decision becomes operative.

Probation

The licensee may continue to engage in activities for which licensure is required, under specific terms and conditions.

Reinstatement

A revoked license that is restored, not sooner than one year from the date of revocation, to a clear or inactive status after petition to and approval by the Board. Reinstatement may include probation and/or terms and conditions.

Revocation

The individual, partnership, or corporation is no longer licensed as a result of a disciplinary action.

Stayed

The action does not immediately take place and may not take place if the licensee complies with other conditions (such as a probation term).

Stipulation

The matter is negotiated and settled without going to hearing.

Suspension

The licensee is prohibited for a specific period of time from engaging in activities for which licensure is required.

Surrendered

The licensee has surrendered the license. The individual, partnership, or corporation is no longer licensed. The Board, however, may impose discipline against a surrendered license in certain circumstances. Surrender also may require certain conditions be met should the former licensee ever choose to reapply for licensure.

(Please see Disciplinary Actions,
continued on page 25)

Disciplinary Board Actions 9/23/02 through 10/25/02

Revocation of CPA Certificate

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
ULBRICH, DAVID L. Encino, CA (CPA 47320) Revocation of CPA Certificate, via default decision. Effective October 25, 2002	<p>In mid-2000, Mr. Ulbrich provided and was paid for accounting services while his CPA license was in "inactive" status. Mr. Ulbrich's license then expired on November 30, 2000. Thereafter, in early 2001, Mr. Ulbrich prepared personal income tax returns for a client and included the designation "CPA" after his name in the paid preparer's box of the client's 2000 federal return.</p> <p>In June 2001, Mr. Ulbrich failed to notify the Board in writing of a change of address. Subsequently, between October 2001 and January 2002, Mr. Ulbrich failed to notify the Board in writing of a further change of address.</p>	Business and Professions Code, Division 3, Chapter 1, §§ 5050 and 5100 (f). California Code of Regulations, Title 16, Division 1, §§ 3 and 80 (a).
VEERKAMP, KIMBERLY ANN Lodi, CA (CPA 36498) Revocation of CPA Certificate, via default decision. Effective October 25, 2002	<p>Ms. Veerkamp was engaged by a client to prepare his 1999 and 2000 federal and state individual income tax returns. Ms. Veerkamp had previously performed such engagements for this client. Ms. Veerkamp gave repeated assurances that she would prepare the client's returns but failed to do so.</p> <p>In order for Ms. Veerkamp to perform the terms of the engagements, the client provided financial documentation to Ms. Veerkamp. The documentation entrusted to Ms. Veerkamp was, and at all times remained, the property of the client. The client made multiple demands, both written and oral, upon Ms. Veerkamp for her to return the financial documentation belonging to him, or to complete the engagements. Ms. Veerkamp failed to return the client's documentation and did not complete the terms of the engagements. The client was assessed penalties as a result of Ms. Veerkamp's failures.</p>	Business and Professions Code, Division 3, Chapter 1, §§ 5037 (b) and 5100 (c). California Code of Regulations, Title 16, Division 1, § 68.

(Please see Disciplinary Actions, continued on page 26)

Other Board Actions 10/25/02 through 12/20/02

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
HAHYAR, ARI Santa Monica, CA (CPA 71749) Revocation stayed with two years' probation, via stipulated settlement. Mr. Hahyar shall complete 40 hours of specified professional education. Mr. Hahyar is required to reimburse the Board \$2,427.12 for its investigation and prosecution costs. Other standard terms and conditions. Effective October 25, 2002	For the purpose of settlement, Mr. Hahyar admits that he prepared grossly negligent working papers for a federal compliance audit while employed as a staff assistant by the firm Hamma and Nelson. Mr. Hahyar's working papers failed to document performance of a variety of compliance audit procedures required by the applicable federal compliance audit guide and did not meet requirements under Government Auditing Standards with respect to documentation of objectives, scope, methodology, and work supporting significant conclusions and judgment. These deficiencies demonstrated a lack of due care in the performance of the engagement.	Business and Professions Code, Division 3, Chapter 1, § 5100 (c) and (f). California Code of Regulations, Title 16, Division 1, § 58.
KWAK, JONG H. Los Angeles, CA (CPA 55696) Revocation stayed with three years' probation, via decision after nonadoption of proposed decision. Mr. Kwak is suspended from practice for 90 days. Mr. Kwak is required to reimburse the Board \$1231.30 for its investigation and prosecution costs. Effective December 11, 2002	On July 31, 2000, in the United States District Court, Central District of California, Mr. Kwak pleaded guilty and was convicted of a crime substantially related to the qualifications, functions and duties of a certified public accountant. The acts, which caused Mr. Kwak's conviction, as noted above also constitute the knowing preparation, publication or dissemination of false, fraudulent or materially misleading financial statements, reports or information.	Business and Professions Code, Division 3, Chapter 1, § 5100 (a) and (i).

(Please see Disciplinary Actions, continued on page 27)

Other Board Actions 10/25/02 through 12/20/02

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
<p>LEAPER, THOMAS D. Toluca Lake, CA (CPA 49063)</p> <p>Revocation stayed with three years' probation, via stipulated settlement.</p> <p>Mr. Leaper's license is suspended from practice for 180 days beginning the effective date of the decision.</p> <p>As part of the 80 hours required for license renewal, Mr. Leaper shall complete 24 hours of continuing education directed by the Board or its representatives by August 1, 2003.</p> <p>Mr. Leaper is required to reimburse the Board \$5,000 for its investigation and prosecution costs.</p> <p>Effective October 25, 2002</p>	<p>Mr. Leaper admits to the charges contained in Accusation AC-2001-2. Specifically, Mr. Leaper admits that he lacked independence in his 1993 audit of Styles on Video, Inc. Furthermore, Mr. Leaper admits that he failed to perform the audit in accordance with Generally Accepted Auditing Standards.</p> <p>Mr. Leaper further admits that his conduct caused discipline to be imposed by the Securities and Exchange Commission. The Commission issued an order on June 17, 1998, suspending Mr. Leaper from practice before the Commission for five years.</p>	<p>Business and Professions Code, Division 3, Chapter 1, § 5100 (g). California Code of Regulations, Title 16, Division 1, § 65.</p>
<p>MCBROOM, BYRON LEE and BYRON MCBROOM CPA, A PROFESSIONAL CORPORATION Manteca, CA (CPA 39615 and COR 3617)</p> <p>Revocation stayed with five years' probation, via stipulated settlement.</p> <p>Respondents are suspended from practice for three years.</p> <p>Respondents are required to reimburse the Board \$3,750 for its investigation and prosecution costs.</p> <p>Respondents shall maintain an active license status with the Board, including any period of suspension.</p> <p>Other standard terms and conditions.</p> <p>Effective October 25, 2002</p>	<p>For purposes of settlement, Respondents admit they willfully and knowingly submitted to the Internal Revenue Service (IRS) a statement or document that was false or fraudulent as to a material matter.</p> <p>Respondents faxed a back-dated prenuptial agreement to the IRS Revenue Officer assigned to Offer-in-Compromise negotiations, knowing that the document had been back-dated.</p> <p>Respondents also assisted a client in manipulating the nature and characterization of their reported compensation, and in taking other actions to create the false impression, for purposes of the client's negotiation with the IRS, that the client had less income and assets than they actually had.</p>	<p>Business and Professions Code, Division 3, Chapter 1, § 5100 (i).</p>

(Please see Disciplinary Actions, continued on page 28)

Other Board Actions 10/25/02 through 12/20/02

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
NGUYEN, LIEN D. AND LIEN D. NGUYEN CPA INC. Anaheim, CA (CPA 50144 and COR 4774) Revocation stayed with three years' probation, via stipulated settlement. Mr. Nguyen is required to reimburse the Board \$11,700 for its investigation and prosecution costs. Mr. Nguyen shall be permanently prohibited from performing audit, review, or compilation engagements under either of his licenses issued by the Board. Other standard terms and conditions. Effective December 20, 2002	<p>For the purpose of the Board's proceeding, Mr. Nguyen admits that he was grossly negligent in the performance of his audit of Apex Escrow, Inc. for the year ended December 31, 1999. The audit contained extreme departures from Generally Accepted Auditing Standards. The auditor's report and the working papers prepared in support of the auditor's opinion failed to comply with applicable professional standards.</p> <p>Mr. Nguyen failed to properly plan the audit, document his understanding and consideration of internal controls, or prepare written audit programs. Mr. Nguyen further failed to obtain sufficient competent evidential matter, modify his audit report for departures from Generally Accepted Accounting Principles, and exercise due professional care in the performance of the audit.</p> <p>Mr. Nguyen also admits that he was grossly negligent in the performance of the compilation for Glamour Beauty College for the year ended December 31, 1999. Initially, Mr. Nguyen submitted financial statements without a report. When Mr. Nguyen issued a report for the compilation engagement, the report contained departures from professional standards.</p>	Business and Professions Code, Division 3, Chapter 1, §§ 5062, 5100 (c) and (f). California Code of Regulations, Title 16, Division 1, § 58.

(Please see Disciplinary Actions, continued on page 29)

Other Board Actions 10/25/02 through 12/20/02

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
SCHNEIDER, HOWARD C. and HAMMA AND NELSON Hacienda Heights, CA (CPA 7642 and PAR 105) Surrendered certificates, via stipulated decision. Effective December 20, 2002	<p>For the purpose of settlement, Mr. Schneider agrees that the complainant could establish a factual basis for the charges and that those charges constitute cause for discipline.</p> <p>The Accusation includes charges that the working papers prepared by Hamma and Nelson for the compliance audit of the Federal Student Assistance Program at Platte College, San Francisco, for the award-year ended June 30, 1996, under the supervision of Mr. Schneider, who was the engagement partner, contained departures from Generally Accepted Auditing Standards.</p>	Business and Professions Code, Division 3, Chapter 1, § 5100 (c) and (f). California Code of Regulations, Title 16, Division 1, § 58.
WALL, WILLIAM T. III Torrance, CA (CPA 16717) Revocation stayed with three years' probation, via stipulated settlement. Mr. Wall's license is suspended from practice for 60 days, beginning the effective date of the decision. As part of the 80 hours required for license renewal, Mr. Wall shall complete 24 hours of continuing education directed by the Board or its representatives by August 1, 2003. Mr. Wall is required to reimburse the Board \$3,800 for its investigation and prosecution costs. Effective October 25, 2002	<p>Mr. Wall admits to the charges contained in Accusation AC-2001-3. Specifically, Mr. Wall admits that he failed to perform an audit of the 1993 financial statements of Styles on Video, Inc. in accordance with Generally Accepted Auditing Standards.</p> <p>Mr. Wall further admits that his conduct caused discipline to be imposed by the Securities and Exchange Commission. The Commission issued an order on June 17, 1998, suspending Mr. Wall from practice before the Commission for three years.</p>	Business and Professions Code, Division 3, Chapter 1, § 5100 (g).

(Please see Disciplinary Actions, continued on page 30)

Appeal of Citation and Fine Before an Administrative Law Judge

Name/Board Actions	Cause for Citation	Code Violation(s) Charged
OKE-BELLO, TOKUNBO P. Hayward, CA (CPA 72878) Citation sustained, via proposed decision. Effective December 20, 2002	Mr. Oke-Bello engaged in dishonesty in making an offer to a prospective client to perform an audit for compensation. In response to a published request for audit proposals, Mr. Oke-Bello falsely represented he had a staff of accountants who would assist him with the audits, and he claimed they had audit experience that, in fact, they did not have.	Business and Professions Code, Division 3, Chapter 1, § 5100 (c).

Future Meetings

January 23, 2003

**Committee on Professional Conduct/
Peer Review Task Force**
*Sofitel San Francisco Bay Hotel
223 Twin Dolphin Drive
Redwood City, California 94065*

January 24, 2003

Board Meeting
*Sofitel San Francisco Bay Hotel
223 Twin Dolphin Drive
Redwood City, California 94065*

March 21, 2003

**Committee on Professional Conduct/
Peer Review Task Force**
*Four Points Sheraton
530 West Pico Blvd.
Santa Monica, California 90405*

March 22, 2003

Board Meeting
*Four Points Sheraton
530 West Pico Blvd.
Santa Monica, California 90405*

May 1, 2003

Administrative Committee
*Fourpoints Hotel
Los Angeles
International Airport
9750 Airport Boulevard
Los Angeles, California 90045*

May 16, 2003

**Board Meeting/
Committee on Professional Conduct**
San Diego

July 25, 2003

Board Meeting/Committee on Professional Conduct
San Francisco

Board, committee, and task force meetings are open to the public. Licensees are encouraged to attend. As meeting locations become known, they will be posted on the Board's Web site at www.dca.ca.gov/cba and also are available by calling the Board's office at (916) 263-3680.

Public notices and agendas are posted to the Web site 10 days prior to the meeting.

ADDRESS CHANGE FORM

A separate change of address form must be submitted for each license type.

Please Print

Name of Licensee

Individual (CPA/PA) - Lic. No. _____

Last	First	Middle

Name of Firm

☐ Corporation ☐ Partnership ☐ Fictitious Name License No. _____

--

Firm Name

Address of Record

Be advised that your address of record is public information, and all Board correspondence will be sent to this address.

☐ Home ☐ Business (check one)

--

Business Name (if different from name above)

--

Street ☐ Apt. # ☐ Suite # (check one)

--	--	--

City State Zip

Other Address

Provide a street address if your address of record is a mail drop or a Post Office Box. This address will not be posted on the Web License Lookup.

☐ Home ☐ Business (check one)

--	--

Street ☐ Apt. # ☐ Suite # (check one)

--	--	--

City State Zip

Daytime Phone Number

-	-
---	---

Area Code

Date of Birth

Mo.	Day	Year

I certify the truth and accuracy of all of these statements and representations.

**Signature of Licensee,
Licensed Partner, or
Licensed Shareholder**

Date _____

Print your name _____

A licensee who fails to notify the California Board of Accountancy within 30 days of a change in his/her address of record may be subject to citation and fine (fines ranging from \$100-\$1000) under the California Code of Regulations, Title 16, Division 1, Sections 3 and 95.2.

The Board maintains a list of all licensees. This list is sold to requestors for mailing list purposes. Check here ☐ only if you do not want your name included on this list.
Please Note: Your name and address of record is public information and can be accessed through our Web site at www.dca.ca.gov/cba.

Mail to: California Board of Accountancy, 2000 Evergreen Street, Suite 250, Sacramento, CA 95815-3832

or **FAX to:** (916) 263-3675

Board of Accountancy Directory

Board Office	(916) 263-3680
Board Office Facsimile	(916) 263-3675
License Status Check	(916) 263-3680
.....	www.dca.ca.gov/cba
General Examination Questions	examinfo@cba.ca.gov
.....	(916) 263-3953 or 263-3958
... Facsimile (916) 263-3677 or (916) 614-3253	
Enforcement Information and Questions	enforcementinfo@cba.ca.gov
.....	(916) 263-3971
.....	Facsimile (916) 263-3673
Certifications	(916) 263-3947
Initial Licensing — Individual:	licensinginfo@cba.ca.gov
.....	fingerprinting@cba.ca.gov
.....	(916) 263-3947
.....	Facsimile (916) 263-3676
Initial Licensing — Partnerships, Corporations, Fictitious Names:	licensinginfo@cba.ca.gov
.....	(916) 263-3937
.....	Facsimile (916) 263-3676
Renewal for CPA/PA, Partnerships, Corporations, Continuing Education:	
.....	renewalinfo@cba.ca.gov
.....	(916) 263-3934
.....	Facsimile (916) 263-3672
Web Site Address	www.dca.ca.gov/cba
Web Page Master	pagemaster@cba.ca.gov
General Inquiries	editor@cba.ca.gov

Department of Consumer Affairs
California Board of Accountancy
Update Issue #53

2000 Evergreen Street, Suite 250
 Sacramento, California 95815-3832
 (916) 263-3680
www.dca.ca.gov/cba

Address Service Requested

Board Members

Wendy S. Perez, CPA, President
 Ian B. Thomas, Vice President
 Joseph Tseng, CPA, Secretary-Treasurer
 Richard S. Charney, D.C.
 Charles R. Drott, CPA
 Gail K. Hillebrand, Esq.
 Michael S. Schneider, CPA
 Navid Sharafatian, Esq.
 Stuart T. Waldman

Carol Sigmann, Executive Officer
 Mary Crocker, Assistant Executive Officer
 Greg Newington, CPA, Enforcement Program Chief
 Patti Franz, Licensing Program Manager
 Mary L. Gale, *Update* Managing Editor
 Terri L. Dobson, *Update* Design and Production

Committee Chairs

Administrative Committee, Olaf Falkenhagen, CPA
 Qualifications Committee, Paul Koreneff, CPA
 Report Quality Monitoring Committee, Andy Mintzer, CPA

PRSRT STD
 U.S. POSTAGE
PAID
 PERMIT NO. 2853
 SACRAMENTO CA